

June 8, 2005

HAND DELIVERY

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JUN 8 2005

PUBLIC SERVICE
COMMISSION

**Re: *In the Matter of: An Assessment of Kentucky's Electric Generation,
Transmission and Distribution Needs
PSC Administrative Case No. 2005-00090***

Dear Ms. O'Donnell:

Please accept for filing the original and four copies of the Comments of Kentucky Power Company, Timothy Mosher, President & COO to the Commission's May 11, 2005 Order in the above-referenced case. Mr. Mosher will appear at the June 14, 2005 technical conference to summarize his comments and to respond to questions.

If you have any questions, please do not hesitate to contact me.

Sincerely,

STITES & HARBISON PLLC

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MRO/las
Enclosure
cc: All Parties of Record (with enclosures)

KE057.KE131:10997:2:FRANKFORT

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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

JUN 08 2005

PUBLIC SERVICE
COMMISSION

In the Matter of:

AN ASSESSMENT OF KENTUCKY'S)
ELECTRIC GENERATION, TRANSMISSION) ADMINISTRATIVE
AND DISTRIBUTION NEEDS) CASE NO. 2005-00090

COMMENTS FROM KENTUCKY POWER COMPANY
TIMOTHY MOSHER, PRESIDENT & COO

The following information is being submitted in response to the Kentucky Public Service Commission's invitation to participate in a Technical Conference June 14, 2005. Kentucky Power is pleased to provide the following information in response to questions posed by Chairman Goss in his invitation of May 11, 2005. We appreciate the Commission's efforts to help Governor Fletcher and Kentucky's lawmakers develop a Strategic Blueprint to guide policy makers in the development of a comprehensive, statewide energy policy – particularly as it relates to the electricity industry.

1. What additional information or data if any, should the Commission consider in developing the Strategic Blueprint?

Although the Commission is in possession of a great deal of beneficial information through such filings as the "387 Case" (adequacy of generation and transmission), the "090 Case" (an assessment of Kentucky's generation/transmission/distribution needs), IRP and other filings, we feel it would be beneficial for Commissioners to evaluate Regional Transmission Organization (RTO) membership for all of the Commonwealth's regulated and non-regulated electric utilities. This would assist the Commission in evaluating the adequacy of the state's transmission/generation infrastructure capacities and ensure that the interests of Kentucky's electricity customers are adequately represented in the RTO planning process.

2. What are the top issues facing the electric power industry in Kentucky over the next 20 years?

Environmental Challenges and the Role of Coal – Kentucky and the nation must continue to rely on coal as the major fuel source of electricity generation. To that end, it is crucial that state and federal regulators/lawmakers evaluate, consider and enact environmental policy that is sound, reasonable, responsible and scientifically based. It is important that they consider the economic and social impact of policy as well as its environmental impact. In order to have ready, reliable and cost-effective access to coal – Kentucky’s most abundant energy resource – we must have policy that keeps the costs associated with mining, transporting and burning coal at reasonable levels while retaining reasonable electricity rates for consumers.

Clearly, debate over emissions control of carbon dioxide, mercury and other elements of burning fossil fuels will continue. We must prepare for the debate with an eye toward sound science, social responsibility and the economic reality of a carbon-constrained world. We must ensure that we responsibly extend the life of existing generation plants that can be economically retrofitted with emission control systems.

We must also accept that some older, coal-fired power plants cannot be practically retrofitted with emissions control equipment and will be candidates for retirement by the end of this decade. Ensuring the timely development of clean coal power plants to meet the growing demand for electricity -- and the probable retirement of older units -- is a top priority.

Infrastructure Enhancements and Reliability – Reliable electricity is the foundation of technological advancement and economic investment. It is also the demand of consumers who expect a higher standard of reliability to operate today’s

increasingly automated, computerized and media-driven home environments. To fuel future growth of any sort – from education to economic to consumer – lawmakers must meet the challenge of promoting a reliable electrical infrastructure. To reliably meet an ever-increasing demand for electricity, policymakers must work to promote investment and improvements to the electrical infrastructure that underpins the Commonwealth.

Clearly, utilities will be faced with investing in new generation plants and reliable transmission and distribution systems. The existing infrastructure grows older by the day. And, while utilities continually work to maintain their systems, the time will come when new developments and technology will underscore the need to upgrade, improve or replace old energy production and distribution facilities. It is important that government encourages continual improvement of Kentucky's electrical infrastructure by facilitating investments in technology and equipment that make Kentucky's infrastructure, safe, reliable and affordable for years to come.

Regulatory Certainty and Cost Recovery – The ability to recover costs associated with corporate investments necessary to meet state/federal environmental and reliability requirements, as well as continuing upgrades to meet the increasing electricity needs of consumers, is important to the industry. These costs will amount to hundreds of millions of dollars over the next decade and should not be borne by utilities without the reasonable expectation of cost recovery (through rates) from the people who benefit from them – consumers. It is important that lawmakers allow for reasonable recovery of utility investments not only to encourage them, but also to ensure the continued operation of a reliable, efficient and environmentally sound energy infrastructure.

The traditional approach to cost recovery, whereby utility rates are increased once a project is completed, may no longer be the most efficient model. To ensure that utilities efficiently attract capital and mitigate the impact of major rate increases, a pre-approval process for major construction projects should be considered. By allowing rates to increase on a gradual and steady basis during construction, and in advance of the commissioning date, both ratepayers and shareholders will benefit. Under this model, utilities should be held accountable for delivering the project on time, on budget, and as defined by the regulator during the project authorization process.

3. What barriers, if any, exist to meeting the future investment needs in electric power infrastructure in Kentucky?

Refinement of Sound, Reasonable & Responsible Public Policy – Quite simply, without sound, reasonable and responsible public energy and environmental policy, Kentucky will not remain as one of the country’s most affordable and reliable energy producers/providers. Confusing, conflicting and contradictory policy will lead to higher costs and increased barriers to energy production. It is important that Kentucky develops and administers sound and consistent energy policies that encourage investment to meet future energy needs.

For example, the 1970 Clean Air Act, a law derived using scientific data and measures, has resulted in a 54 percent reduction in the total emissions of six criteria pollutants (sulfur dioxide, carbon monoxide, nitrogen oxide, ozone, lead and particulate matter) over the past 35 years. This occurred during a period where energy consumption increased 47 percent, the U.S. population grew 40 percent and the Gross Domestic Product increased 187 percent. The Act illustrates that sound, science-based statutes become effective environmental policy.

Clearly Defined Roles for State and Federal Regulators – As defined in the Federal Power Act, the responsibility for regulation of wholesale energy markets resides with the Federal Energy Regulatory Commission (FERC) –which also regulates the open access transmission tariffs of electric utilities. Since it is arguable that the nation’s high voltage transmission grid is operating as a network in interstate commerce, FERC should regulate transmission assets. Similarly, FERC should be vested with siting authority and the power of eminent domain to facilitate the continued development of the nation’s electricity grid.

In contrast, the State must retain exclusive authority for continued regulation of all ongoing utility obligations associated with meeting customers’ needs – including the approval of new generation capacity to meet native load requirements. The Commission may also wish to evaluate the need for a federally regulated “capacity market” as proposed by RTO’s and the potential economic consequences that could result from mandatory participation in such a market.

Respectfully submitted,

KENTUCKY POWER COMPANY

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